

**Department of Legislative Services**  
 Maryland General Assembly  
 2020 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 220 (Chair, Ways and Means Committee)(By Request -  
 Departmental - Labor)

Ways and Means

**Income Tax Credit - Employment of Apprentices - Extension**

This departmental bill extends the termination date for the income tax credit for employing an apprentice for five additional years through tax year 2024. **The bill takes effect July 1, 2020.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$448,500 annually in FY 2021 through 2025 as a result of tax credits being claimed against the corporate and personal income tax. Transportation Trust Fund (TTF) revenues decrease by \$36,500 annually and Higher Education Investment Fund (HEIF) revenues decrease by \$15,000 annually in FY 2021 through 2025. TTF expenditures decrease by \$4,900 in FY 2021 and by \$3,500 in FY 2025.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$448,500)	(\$448,500)	(\$448,500)	(\$448,500)	(\$448,500)
SF Revenue	(\$51,500)	(\$51,500)	(\$51,500)	(\$51,500)	(\$51,500)
SF Expenditure	(\$4,900)	(\$4,900)	(\$4,900)	(\$4,900)	(\$3,500)
Net Effect	(\$495,100)	(\$495,100)	(\$495,100)	(\$495,100)	(\$496,500)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local highway user revenues decrease by \$4,900 in FY 2021 and by \$3,500 in FY 2025 as a result of credits claimed against the corporate income tax. Expenditures are not affected.

**Small Business Effect:** The Maryland Department of Labor (MDL) has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment.

## Analysis

**Current Law:** Under the More Jobs for Marylanders Program, there is a tax credit against the State income tax for individuals or corporations that employ an apprentice for at least seven months during a taxable year in an apprenticeship program registered with the Maryland Apprenticeship and Training Council. The income tax credit is for the first year of employment of an eligible apprentice and equal to the lesser of \$1,000 for each apprentice or the taxpayer's tax liability. The credit may be carried forward to succeeding tax years until the full amount of the credit is claimed. The taxpayer claiming the credit must attach specified proof of eligibility to the taxpayer's return, and MDL may approve tax credits of up to \$500,000 annually. The tax credit terminates January 1, 2020.

**Background:** Generally, apprenticeship is a voluntary, industry-sponsored system that prepares individuals for occupations typically requiring high-level skills and related technical knowledge. Apprenticeships are sponsored by one or more employers and may be administered solely by the employer or jointly by management and labor groups. An apprentice receives supervised, structured, on-the-job training under the direction of a skilled journeyman and related technical instruction in a specific occupation. Apprenticeships are designed to meet the workforce needs of the program sponsor. Many industry sponsors use apprenticeship as a method to train employees in the knowledge necessary to become a skilled worker.

As of November 2019, there were 10,711 apprentices registered, of which 3,612 were new apprentices registered, and there were 3,820 participating employers and 158 program sponsors.

MDL issued 229 certifications for businesses to receive the apprenticeship tax credit in tax year 2017 and 346 certifications for businesses to receive the tax credit in tax year 2018. MDL has issued 32 certifications as of January 2020 for tax year 2019, but expects that number to increase as more taxpayers file their 2019 tax returns.

In fiscal 2019, the Comptroller's Office reports 95 taxpayers claimed apprenticeship tax credits of \$137,322.

**State Revenues:** The bill extends the termination date for the apprenticeship tax credit through tax year 2024. Thus, MDL can issue a maximum of \$500,000 of tax credit certificates annually in tax years 2020 through 2024. While the apprenticeship tax credit program has not been fully subscribed in previous years, the program is relatively new and growing, so it is assumed that the program will be fully subscribed in future years.

Assuming that 50% of all credits are claimed against the personal income tax and 50% are claimed against the corporate income tax, general fund revenues decrease by \$448,515,

TTF revenues decrease by \$36,485, and HEIF revenues decrease by \$15,000 in fiscal 2021. **Exhibit 1** shows the estimated State revenue impacts resulting from the tax credit. The credit is nonrefundable, so to the extent that a business does not have enough tax liability to claim the full credit or to the extent that the program is not fully subscribed, the revenue decrease is less.

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**Exhibit 1**  
**Fiscal Impact of Legislation**

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
General Fund	(\$448,515)	(\$448,515)	(\$448,515)	(\$448,515)	(\$448,515)
HEIF	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
TTF	(36,485)	(36,485)	(36,485)	(36,485)	(36,485)
<b>Total</b>	<b>(\$500,000)</b>	<b>(\$500,000)</b>	<b>(\$500,000)</b>	<b>(\$500,000)</b>	<b>(\$500,000)</b>
TTF Expenditures	(\$4,926)	(\$4,926)	(\$4,926)	(\$4,926)	(\$3,503)

HEIF: Higher Education Investment Fund

TTF: Transportation Trust Fund

Source: Department of Legislative Services

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**State Expenditures:** A portion of TTF revenues is used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate income tax revenues results in a 13.5% decrease in TTF expenditures to local governments (9.6% beginning in fiscal 2025). Accordingly, TTF expenditures decrease by \$4,926 in fiscal 2021 and by \$3,503 in fiscal 2025, as shown in Exhibit 1. TTF revenues also fund the State capital program; thus, a decrease in TTF revenues decreases expenditures for the State capital program.

MDL and the Comptroller’s Office can implement the bill with existing resources.

**Local Revenues:** Local governments receive a portion of corporate income tax revenues as local highway user revenues through capital transportation grants. Under this bill, local highway user revenues decrease by approximately \$4,926 in fiscal 2021 and by \$3,503 in fiscal 2025 as a result of credits claimed against the corporate income tax.

**Small Business Effect:** A small business that employs an eligible apprentice may benefit from receiving a tax credit for the first year of the apprentice's employment of \$1,000 for each apprentice.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Maryland Department of Labor; Department of Legislative Services

**Fiscal Note History:** First Reader - February 10, 2020  
an/jrb

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Analysis by: Heather N. MacDonagh

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

# ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Registered Apprenticeship - Tax Credit Reauthorization

BILL NUMBER: HB220

PREPARED BY: James Rzepkowski and Erin Roth

## PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

**OR**

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

## PART B. ECONOMIC IMPACT ANALYSIS

Labor anticipates that this bill would have a positive economic impact on small businesses and the business community. Small businesses are eligible to apply for the Apprenticeship Tax Credit under the *More Jobs for Marylanders Act* of 2017, authorizing the credit for tax years 2017 through 2019. This credit opens state funding resources and provides a pathway to the workforce system for small businesses. Reauthorizing the Apprenticeship Tax Credit would keep this pathway open to better connect small businesses to state resources.